

Da Vinci Capital

Financial Infrastructure in Russia - Opportunities for PE Funds

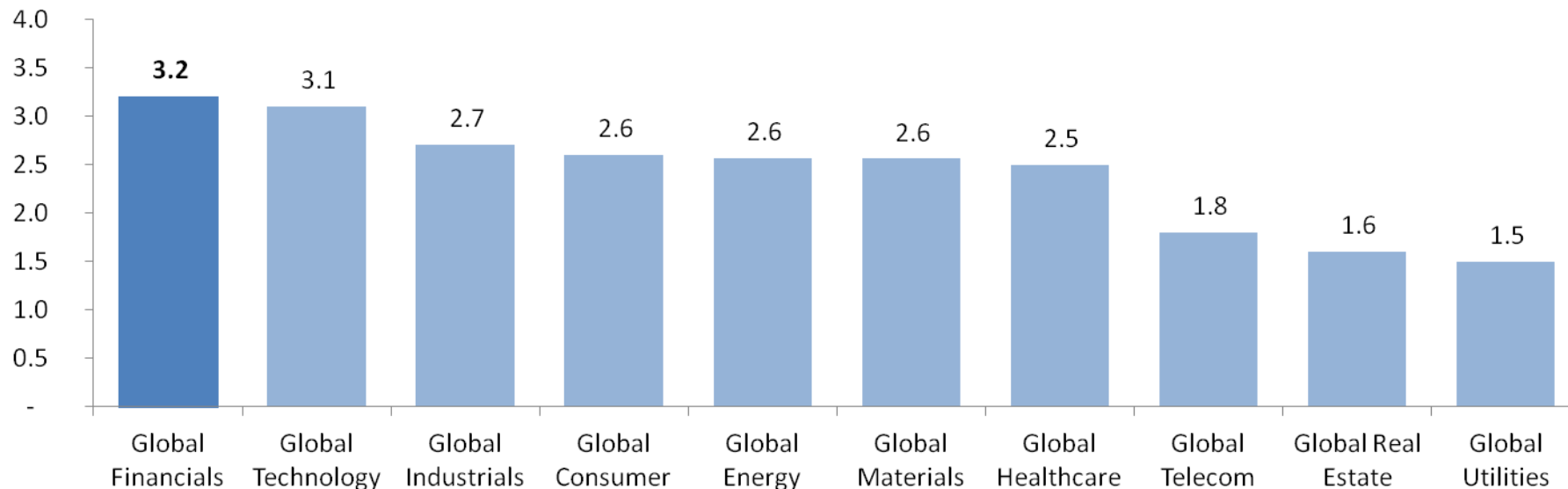
Eric Maillebiau, Managing Director, Business Development

October 27, 2011, Moscow

Private equity in Financial Services - a unique, “once in 50 years” opportunity

- The current environment presents a unique, “once in 50 years” opportunity for investing in global financial services
 - Valuations across sub-sectors and geographies are deeply discounted and at cyclical lows
 - The industry is undergoing fundamental restructuring, allowing specialized investors deploying private capital an opportunity to generate significant investment returns that will be unmatched by most other strategies

Estimated five-year multiple of invested capital by global industry ⁽¹⁾ ⁽²⁾ ⁽³⁾



(1) All data from Bloomberg; expected return based on entry at current market prices as of September 2011, five years of earnings based on I/B/E/S long term growth rate, a 25% annual dividend payout ratio, and exit at median year-end price to book or price to earnings multiples over the past 20 years

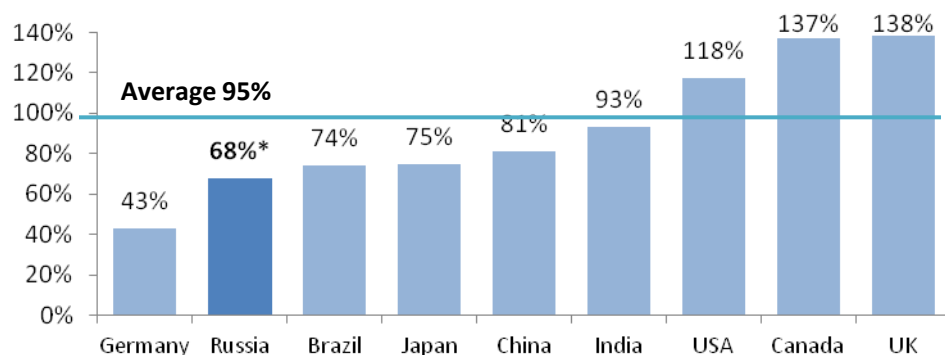
(2) Sectors based on companies included in the S&P Global Indices for all sectors except Global Real Estate; Global Real Estate based on companies included in the S&P 500 Real Estate Industry Group Index. S&P Global Financial index includes 219 companies across various geographies.

(3) Assumes price to book value multiple for Global Financials and Price to LTM earnings for all other industries.

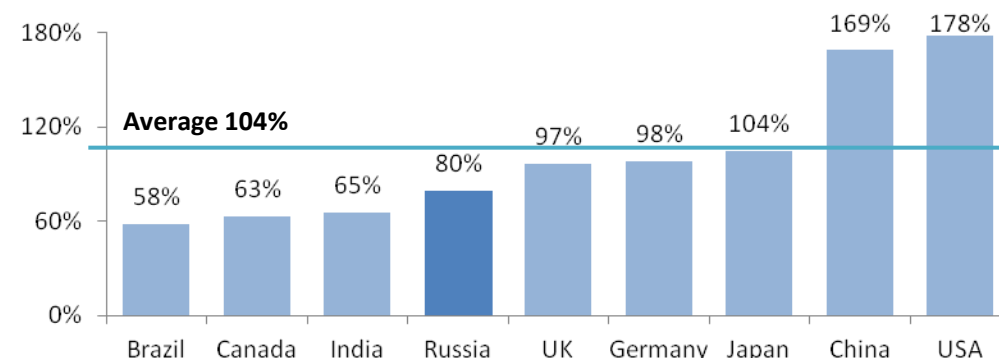
Russian capital markets have significant room for growth

- The Russian capital markets infrastructure is the most developed among the CIS countries. However, it is significantly underdeveloped when compared to developed markets in terms of capitalization and trading volume.
- Stock market capitalization and stock trading in Russia account for approximately 68% and 54% of GDP respectively, compared to 95% and 99% for the major peers average.

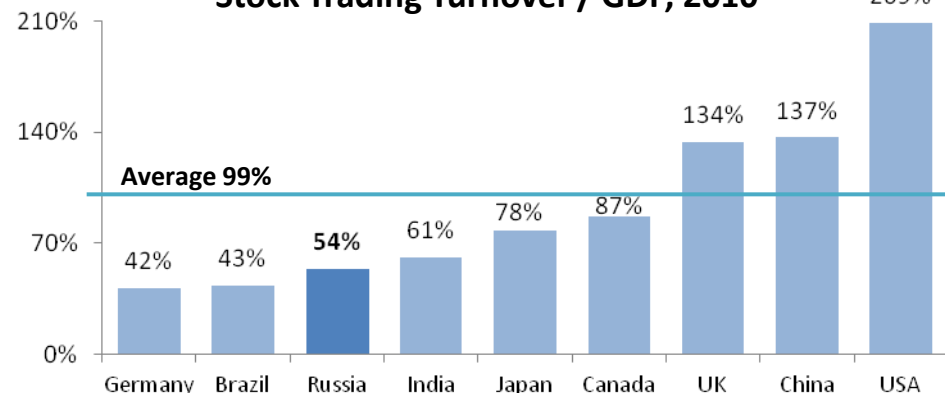
Capitalization of stock market / GDP, 2010



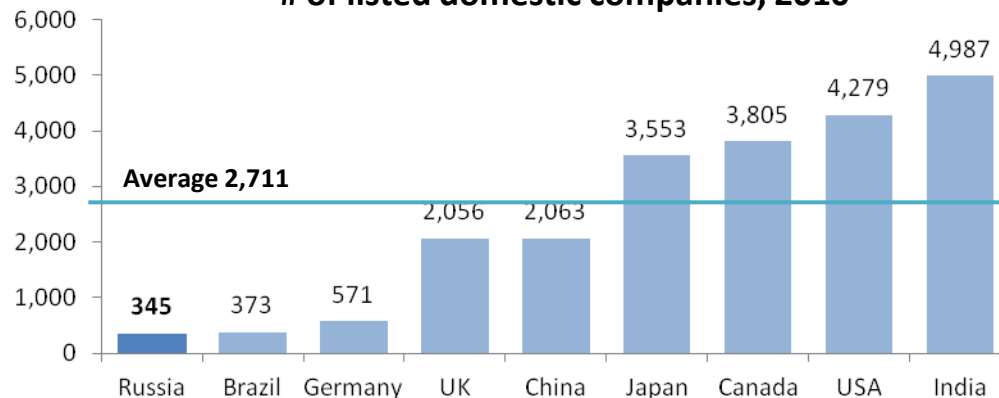
Velocity, 2010**



Stock Trading Turnover / GDP, 2010



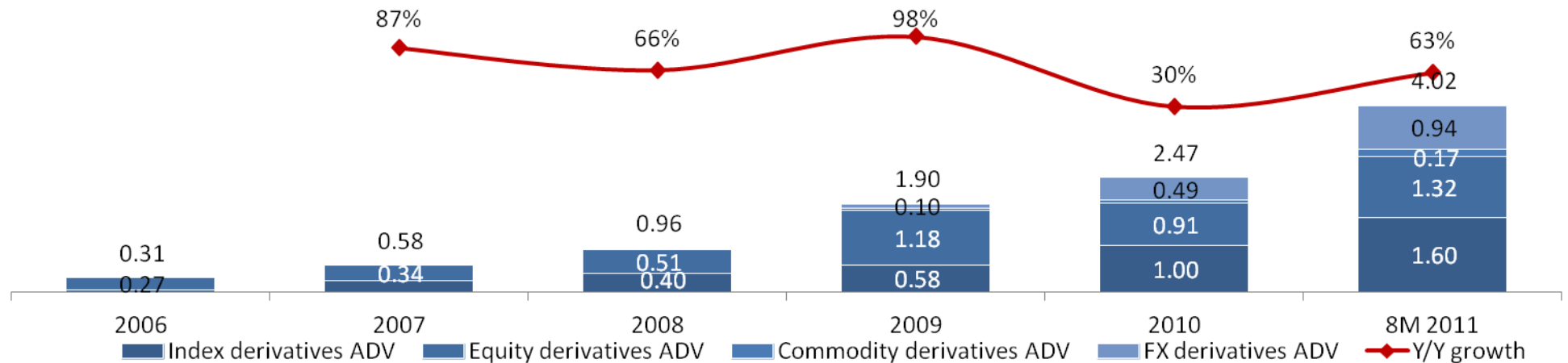
of listed domestic companies, 2010



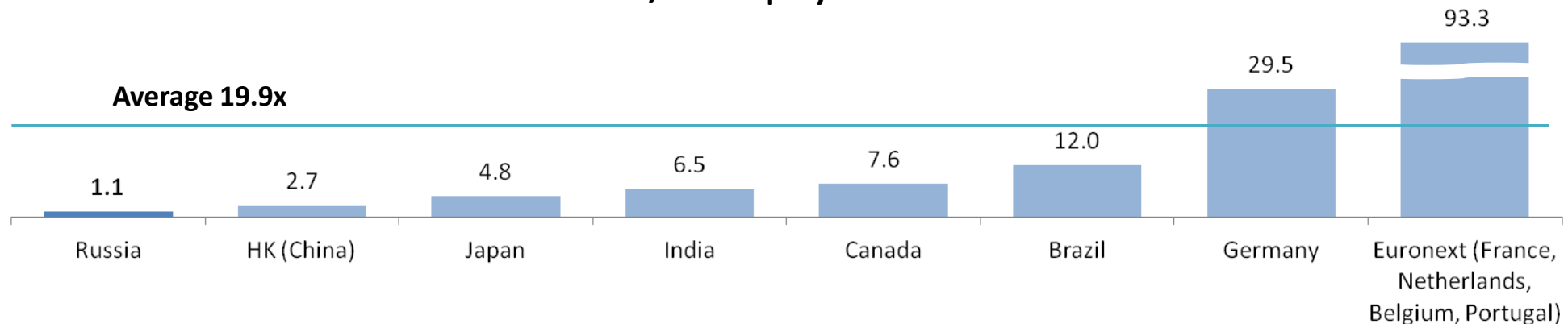
Derivatives market in Russia is still underpenetrated

- The increase in derivatives trading volume is one of key future growth drivers. Derivatives to cash equities trading volumes ratio in 2010 in Russia is substantially below the market average of 19.9x.

RTS derivative average daily trading volume, mn contracts

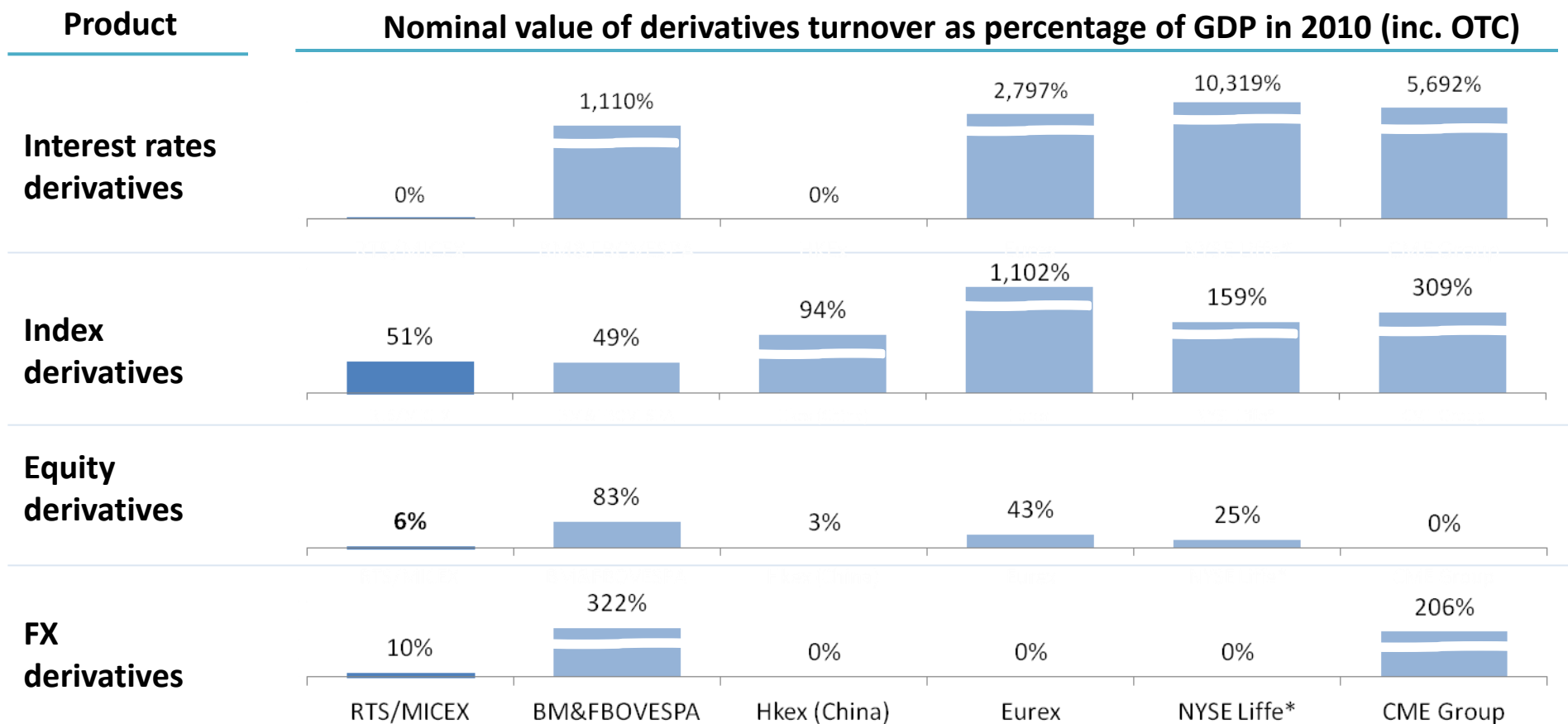


Derivative/Cash equity volume ratio in 2010



Russian market has room for growth in all products with interest rates derivatives having the largest potential

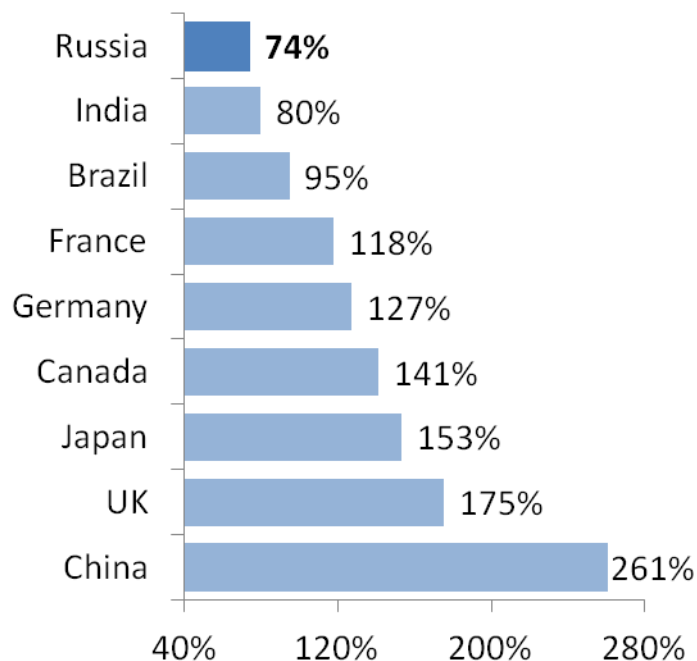
- Several trading instruments common in DM are still lacking in Russia, or are used only marginally. Their introduction should generate substantial growth opportunities for local stock exchanges.
- Derivative instruments such as equity indices, commodity derivatives and interest rate derivatives being the examples



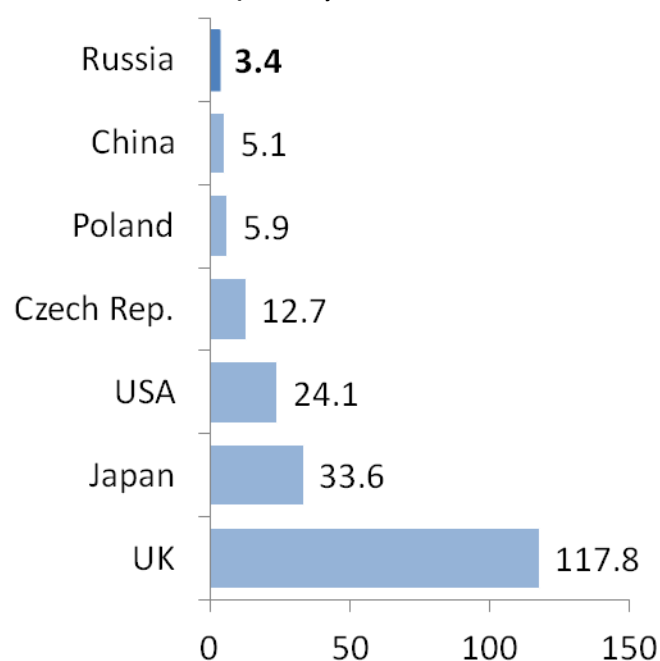
Banking sector has a significant potential for further future growth

- The room for growth in the banking sector of Russia is much higher than for other industries due to the very low penetration of financial products.
- Banking sector should continue to outpace GDP growth. The Russian banking sector has yet to catch up with other emerging markets. Banking assets reached 74% of GDP in 2010, well below the 261% in China , 95% in Brazil and 80% in India.

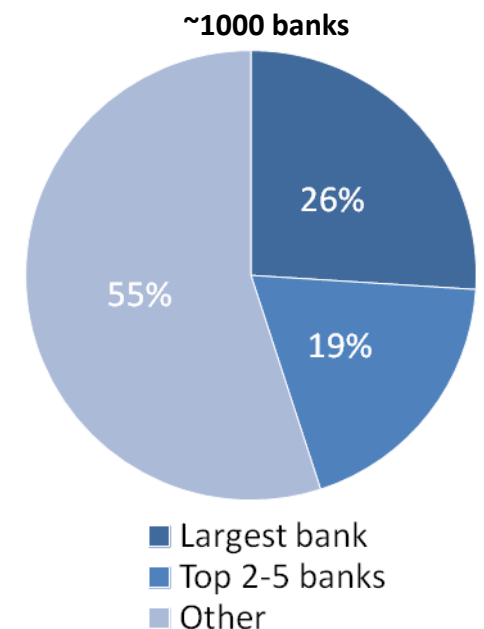
Assets/GDP, 2010



**Client deposits per capita,
\$ '000, 2010**



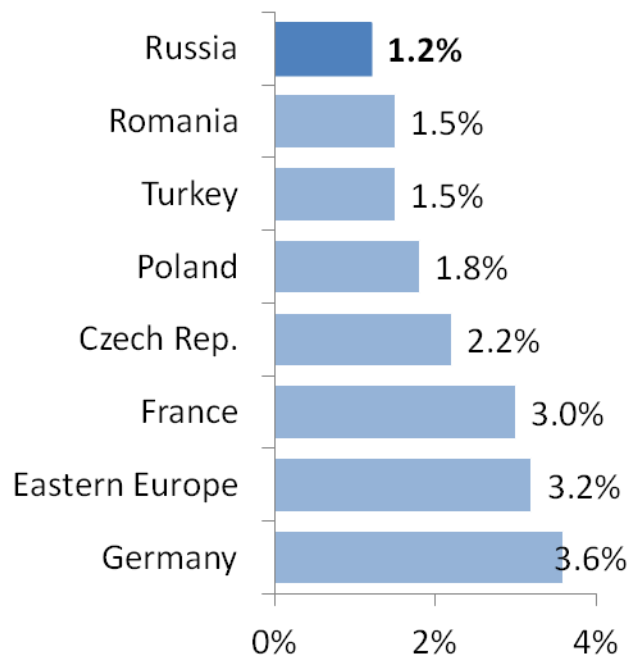
Banking: Assets breakdown, 2010



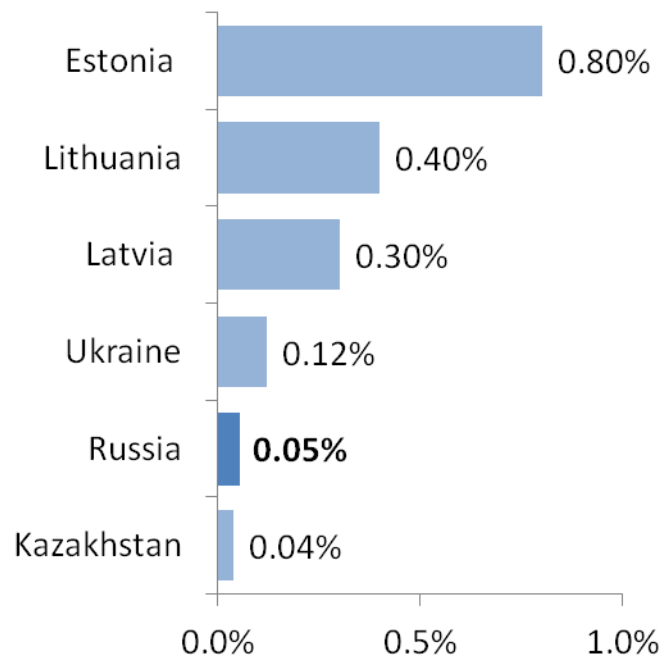
Insurance market: introduction of new mandatory segments will drive market development

- Premiums on obligatory products are expected to remain the key driver of growth for the Russian insurance sector in the near future, especially as the government realizes the necessity of developing a stronger insurance market.
- The need to consolidate the Russian insurance sector should provide favorable exit opportunities via M&A.

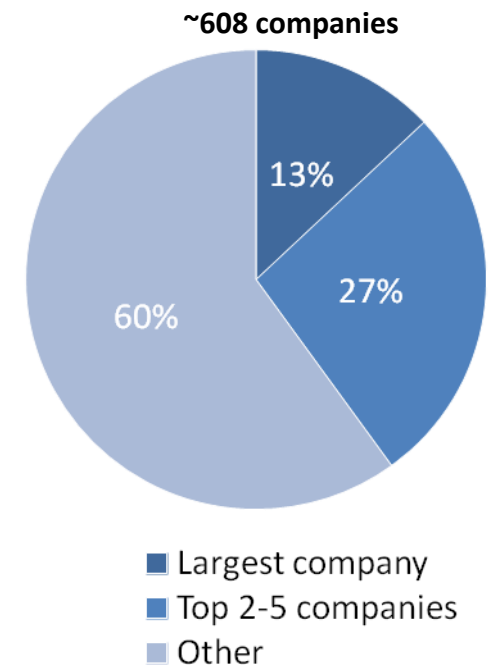
Penetration levels of insurance products, GPW as % of GDP, 2009



Life-insurance market, GPW as % of GDP, 2009

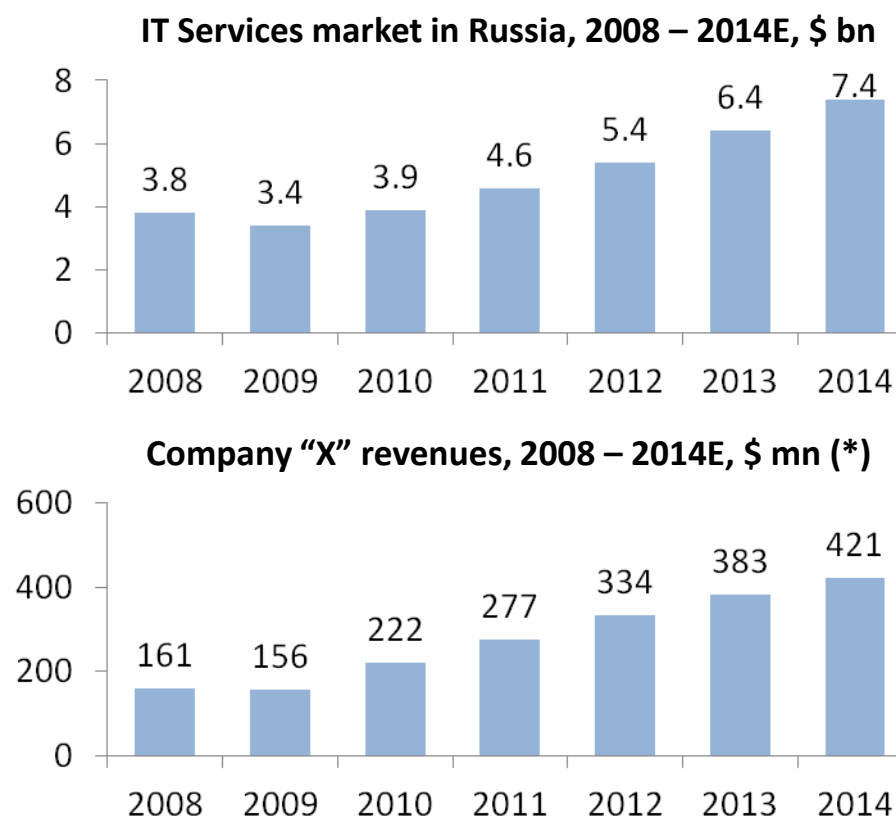
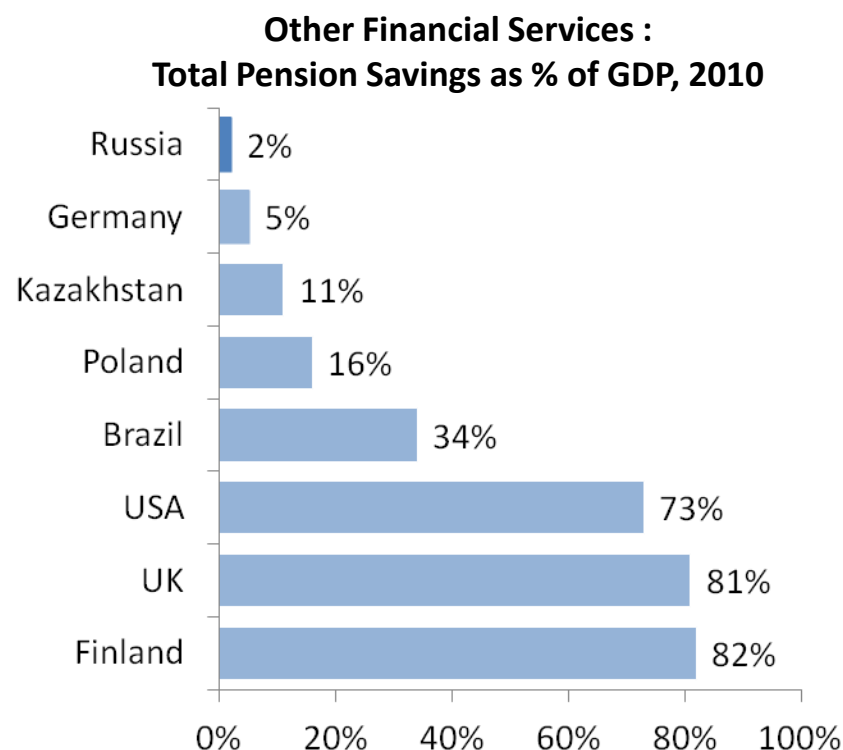


Insurance; Gross Written Premiums Breakdown, 2010



Other financial services: pension and IT sectors

- Out of the main CIS economies at the moment, only Kazakhstan succeeded in introducing a substantial pension legal framework allowing the development of Non-Government pension funds.
- Information Technology is one of the fastest growing industries of Russia. The low cost of labor combined with the comparison of skills, geo-political risk, and solid infrastructure, makes Russia an emerging leader in the growing world of IT outsourcing. Specialized IT service providers focusing increasingly on the financial sector, such as the company shown above, are even recording higher growth patterns.



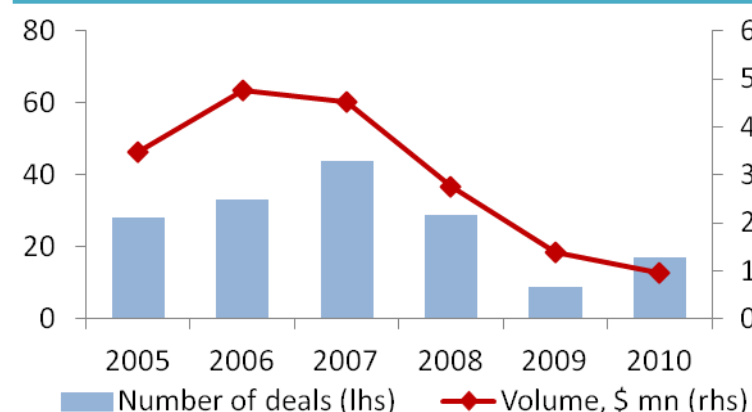
Source: IMF, AFN RK, CBR, UBS, European Central Bank, World Bank, OECD Statistics, Renaissance Capital, Companies and Markets, ReportLinker.

* Company providing IT services with an increasing focus on the financial sector. Name withheld for sake of confidentiality

Exit opportunities – M&A market

- The level of private equity activity in Russia has remained subdued in the aftermath of the financial crisis, with the announcement of a mere 17 private equity deals over the course of 2010 – 12 buyouts and five exits.
- The Russian market will continue to be dominated by deals in the key sectors of Energy and TMT, but some of the more interesting M&A opportunities in the future may lie in the Financial Services.
- In Financial Services, M&A will reflect the governments' drive to develop Moscow as a financial center which requires further consolidation in this space.

Private equity buyouts & exit trends in Russia



Top-4 private equity buyouts & exits in Russia, 2010

Announced date	Target company	Bidder company	Seller company	Deal value
June 10	Synterra	MegaFon	PromSvyaz-Capital	\$800m
December 10	Brunswick Rail LLC (16% stake)	Macquarie Renaissance Infrastructure Fund		\$120m
January 10	Rising Star Media	UFG Private Equity Fund	National Amusements Inc.	\$30m
August 10	Kuznetsk Milk Company	Kuznetsk Milk Company (MBO Vehicle)	Kemerovo Region	\$20m

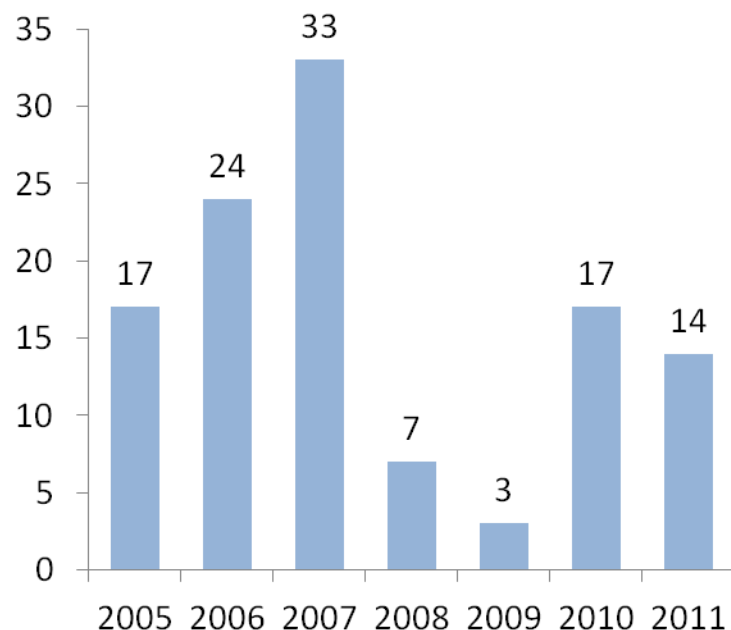
Heat chart: Russia*

Sector	Russia
Energy, Mining & Utilities	121
Transportation	98
Consumer	93
Industrials & Chemicals	75
Financial Services	61
Technology, Media & Telecommunications	48
Business Services	19
Construction	19
Real Estate	16
Other	46
Total	596

Exit opportunities – IPO

- In 2010 Russian companies performed eight initial public offerings and raised \$4.3 bn. Due to current market turmoil nine IPOs has been cancelled.
- Seven of eight companies placed on foreign exchanges – LSE and NASDAQ.
- In 2012-2013 large number of IPOs is expected in the financial sector.

IPO companies from CIS countries



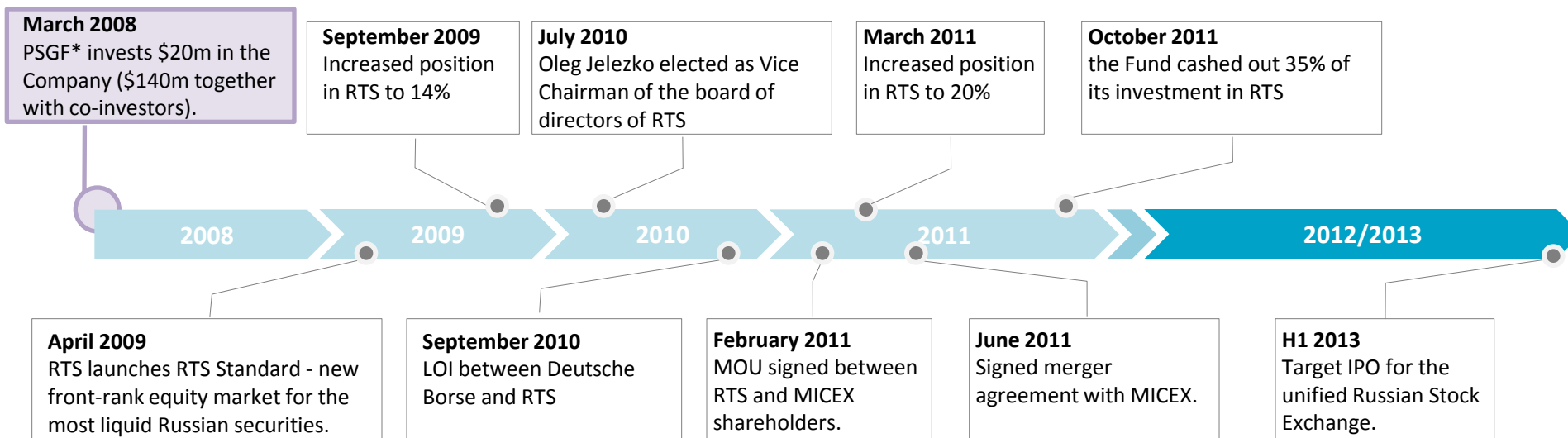
Expected IPO in financial sector in 2012-2013

No	Company	Expected date	Platform
1	Home Credit and Finance Bank	H1 2012	TBD
2	Probusinessbank	H1 2012	Moscow
3	UralSib Bank	H1 2012	TBD
4	Orient Express Bank	H1 2012	TBD
5	Promsvyazbank	H2 2012	TBD
6	MICEX/RTS	H1 2013	TBD
7	BCS	H2 2013	TBD
8	Otkrytie	H2 2013	TBD
9	Rosgosstrakh	H2 2013	TBD

Case study: RTS Stock Exchange

Timeline of DVC investment and value add

Deal Timeline



DVC Involvement

Corporate Strategy & Sales	Organizational Changes	Operational Improvements	Financial Management	Level of Involvement
<ul style="list-style-type: none"> Set up new spot trading platform Initiated ongoing discussions with international partners Set up commodities exchange in Kazakhstan Led negotiations towards MICEX merger 	<ul style="list-style-type: none"> Setting up of strategy committee Implementing sales & marketing function Hiring key executives Opened an office in London 	<ul style="list-style-type: none"> Created a set of KPI's for the Board Prioritized 30+ projects for 2009-10 	<ul style="list-style-type: none"> Improved liquidity Management Created a financial plan for 2009-2011 with the target to increase the market capitalization 5 times Led IPO/ Merger preparation in 2010-11 	<p>Significant:</p> <ul style="list-style-type: none"> BoD participation Daily involvement

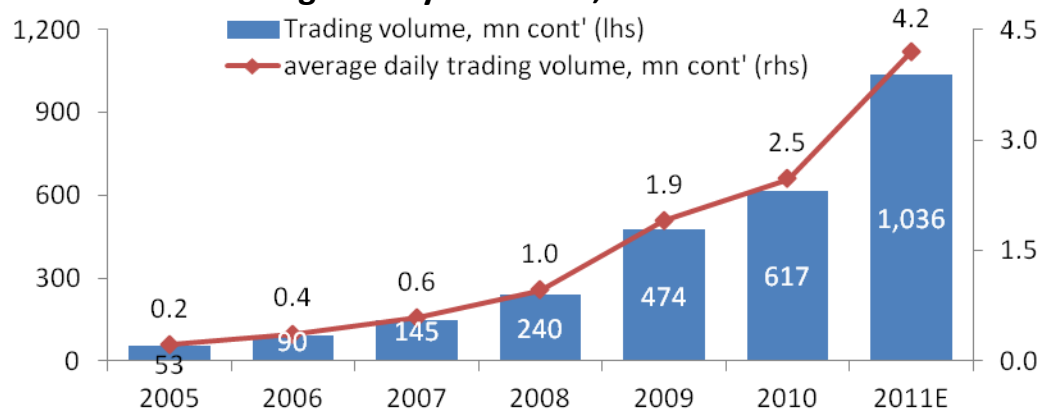
* Da Vinci Private Sector Growth Fund. The 1st PE Fund launched by Da Vinci Capital in 2007.

Case study: RTS Stock Exchange

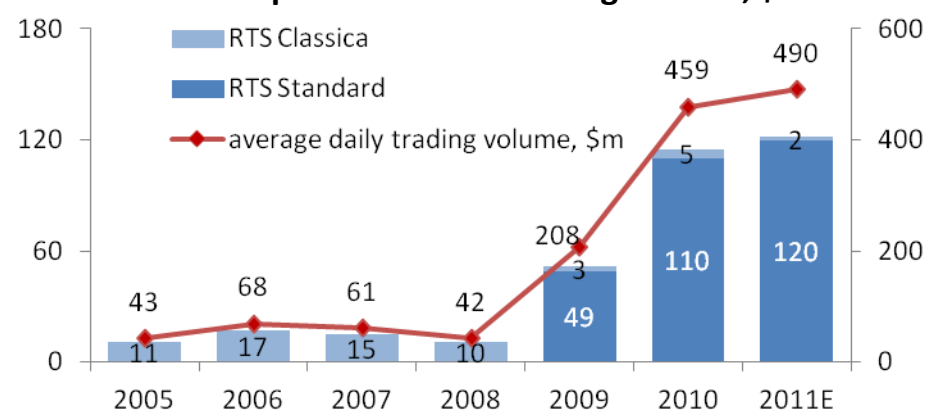
RTS business growth

- In 2005 – 2011 average daily trading volume on FORTS demonstrated more than 64% annual growth.
- RTS Standard, cash equities market of RTS, managed to increase its market share in cash equities from 2% in 2008 up to over 25% in 2010. Key driver for market was opening of RTS Standard in April 2009.

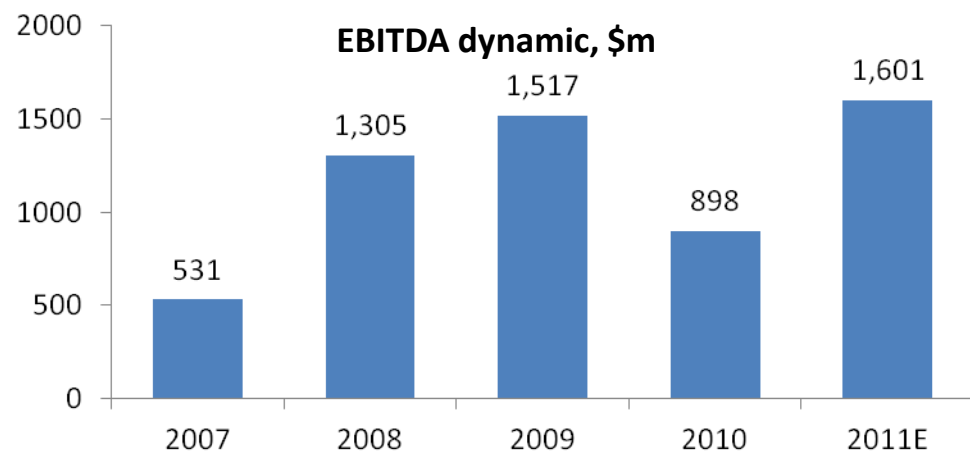
Trading activity on FORTS, m contracts



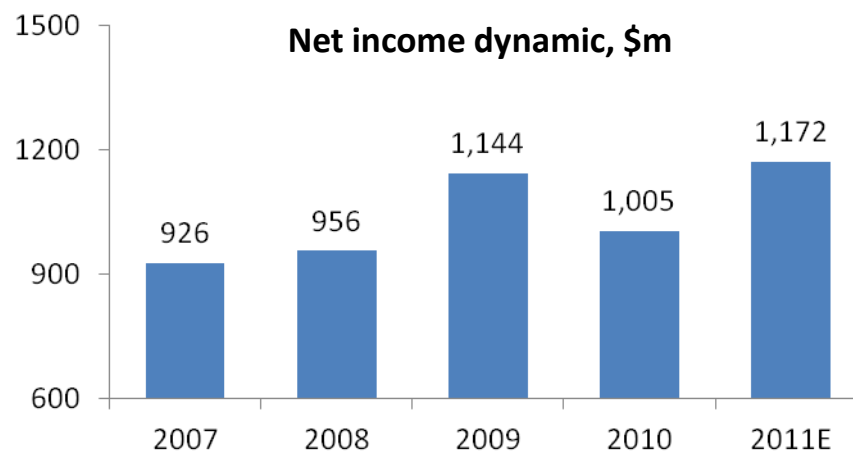
RTS cash equities markets trading volume, \$ bn



EBITDA dynamic, \$m



Net income dynamic, \$m



Financial Infrastructure in Russia – high growth opportunities

- The growth prospects in capital markets and financial services are much higher than in other industries due to the very low penetration level.
- The Russian capital markets infrastructure is the most developed among the CIS countries. However, it is significantly underdeveloped when compared to developed markets in terms of capitalization and trading volume.
- Significant growth of the insurance and banking segment is expected with next 3-5 years due to market recovery.
- Information Technology is one of the fastest growing industries in the region. Electronic platforms and related IT financial service providers demonstrate the highest growth patterns in that area.
- The need for sector consolidation and strategic appetite for M&A deals in the FIG sector provide favorable exit opportunities.

Eurasian Financial Infrastructure Fund (EFIF)

Investment Strategy

Focus on the Financial Sector of the Eurasian Economic Community

- Focus on Russia and Kazakhstan, with access to other Eurasian Economic Community countries aiming at capitalising on, the development of those countries' financial infrastructure
- Benefit of sector's superior growth prospects over the next 10 years
- Exploit team's proven track record in that sector
- Leverage pipeline in place and several live deals

Diversify across 3 sub-sectors

- Capital Markets Infrastructure – stock exchanges, brokerage companies , etc.
- Banking and Insurance – mid-size, independent banks, insurance companies, etc.
- IT and Financial Services – payment systems, asset managers, business processing and outsourcing related to financial services.

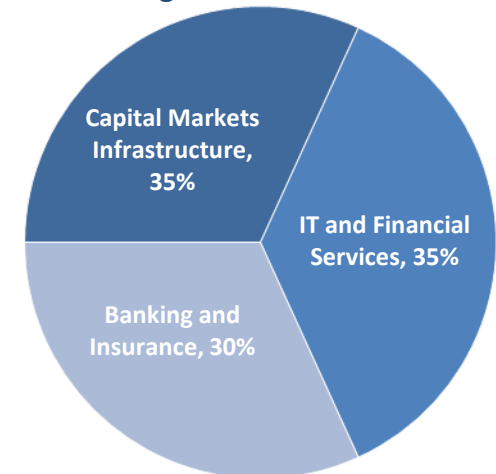
Diversify value creation approach

- Active management of emerging capital markets infrastructure companies
- Active control with co-investors over buyouts of growing mid-market companies
- Minority control shareholdings in larger companies, whenever possible with secured exits via put options

Target Mix Countries



Target Mix Sub-sectors



* The Eurasian Economic Community (Eurasec) includes 5 core countries as permanent members (Russia, Kazakhstan, Belarus, Kyrgyz Republic, Tajikistan) and 3 other countries as observers (Armenia, Moldova and Ukraine).

Da Vinci Capital Group Overview

Da Vinci Capital (“DVC”) – independent investment management company set up in 2007, focusing on private equity investments in Russia and the CIS with \$300m target AUM before year end.

Vision – applying best international practices in investment and management processes to capitalize on the expected growth of the CIS markets and to generate superior financial returns.

Principals - prior to setting up Da Vinci Capital, Oleg Jelezko built the number 1 alternative investment business in Russia at Renaissance Capital, and Oleg Konev created Rosta, the 3rd largest pharmaceutical distribution company in Russia. Together, they bring an extensive network of connections, proven strategic leadership and management capacity.

Team - 15 professionals with a solid track record in private equity, and a breadth of general management, investment banking, trading, structuring and management consulting experience at leading international firms.

Office network – Moscow, Almaty, London and Guernsey.

Committed capital to date – Further to \$70m cash distribution in Oct. 2011, \$90m in Fund I (**PSGF** – Private Sector Growth Fund) and \$120m under advisory management in co-investments linked to Fund I.

Track record – positive track record of Fund I, with investments in leading Russian companies such as RTS and EPAM having provided early cash outs in Oct. 2011 and gross base case returns over 14% IRR / 1.7x multiple, i.e., at a market premium given the relevant vintage period (2007 and 2008). Excellent prior track record of principals at leading financial institutions such as CSFB and Renaissance Capital.

Product focus – private equity investments focusing on projects where DVC team can provide strong in-house added value, e.g. the financial sector for fund II (**EFIF** – Eurasian Financial Infrastructure Fund).

Regional focus – Russia, Kazakhstan and other CIS countries.

Investor focus – close relationships with focused institutional investor base aiming at repeat investments and long-term cooperation.